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TAGS: [EAID](#) [PREL](#) [PGOV](#) [EUN](#) [CY](#)
SUBJECT: BULK OF EU AID TO TURKISH CYPRIOT COMMUNITY
DELAYED DUE TO GREEK CYPRIOT POWER PLAY FOR CONTROL OF
ASSISTANCE PROGRAM

REF: NICOSIA 781

Classified By: Ambassador Ronald Schlicher. Reasons 1.4 b and d.

¶1. (U) This is an action request. Please see paragraph 10.

¶2. (C) Summary: EU Member States failed to approve the first "quick" phase of projects under the European Commission's 139 million Euro assistance program for the Turkish Cypriot Community. At the July 3 PHARE meeting, negative votes from Cyprus and Greece and abstentions from seven others prevented the European Commission from receiving the qualified majority needed to proceed with tenders for 38.5 million Euro in programs. Before the meeting, the GoC lobbied hard to postpone approval, arguing that it had not been adequately consulted and needed more details, especially on how the aid might affect property belonging to Greek Cypriots displaced in 1974. Commission officials reported that they had consulted with the GoC, but that the GoC seemed to be holding out for co-decision authority rather than just consultation. The Commission plans to go ahead with the formal opening of an office in the north and has already started hiring staff. Some small programs that did not require PHARE approval will be able to begin immediately. The bulk of the programs, however, will have to wait until approval at the next PHARE meeting currently scheduled for October 20. EC officials warn that failure to approve the aid in October will effectively kill the program, as all the aid must be obligated by the end of the year and it will take at least two months to put out tenders and award contracts. End summary.

PHARE Committee Fails to Approve Aid

¶3. (SBU) On February 27, 2006 the EU approved Council Regulation 389/2006 making 139 million Euro available to support economic development in the Turkish Cypriot Community. According to the regulation, all assistance over 5 million Euro or that might affect property of displaced Greek Cypriots must be approved by the Member States, PHARE Management Committee, which was originally established in 1989 to advise the Commission on assistance to Poland and Hungary. The PHARE Committee consists of one member from each EU Member State, and its decisions are taken by qualified majority. In April, the Commission submitted to

the PHARE Committee plans for the first phase of the programs valued at 38.5 million Euro (see reftel) Specifically the Commission proposed spending:

-- 21.2 million Euro for a solid-waste sector program, including the creation of a waste-management plant, installation of a medical-waste treatment facility and rehabilitation of garbage dumps, including the Dikmen site, which has become an ecological disaster.

-- 900,000 Euro for a feasibility study on the rehabilitation of the Lefke mining area. (Note: The Lefke Copper Mine, which belonged to the U.S. Cyprus Mining Corporation, was forcibly expropriated by the Turkish military in 1974 and subsequently "leased" to European mining interests, which conducted activities virtually without oversight or regulation. End note.)

-- 5 million Euro for upgrading the management of the energy sector. This will include installation of metering systems, reactive energy-compensation devices, and a Supervisory Control and Data Acquisition System (SCADA).

-- 1.5 million Euro for dissemination of information on the European Union political and legal order.

-- the remaining 9.5 million is for promoting economic and social development through the UNDP-Partnership for the Future program.

14. (C) Commission officials and EU Ambassadors reported that the July 3 PHARE Management Committee, however, failed to approve this first phase of programs, delaying their start by at least two months. The GoC had lobbied aggressively to

have the meeting postponed, arguing that it had not been properly consulted, especially on how these projects might affect property owned by Greek Cypriots displaced in 1974. In response the European Commission argued that they had consulted the GoC fully and would only be able to answer the GoC's property concerns once feasibility studies, which were the first stage in all the proposed projects, had been completed. One senior DG Enlargement official suggested that a significant problem is that the GoC appears to have chosen to interpret the Commission's commitment to consult with it as being the same as giving the GoC co-decision authority.

Seven Abstentions Prevent Qualified Majority

15. (C) According to DG Enlargement official Miriam Ryan, who attended the meeting, the GoC representative forced an immediate vote to postpone discussion of the Turkish Cypriot aid until the October meeting. This proposal was defeated and DG Enlargement formally presented the proposed projects. Only the Greek and the Latvian representatives spoke up in favor of the GoC position. In the end, only Cyprus and Greece voted against formal approval of the projects. Seven countries (Latvia, Lithuania, Malta, Czech Republic, Hungary, Spain and Portugal), however, chose to abstain, thus denying the Commission the qualified majority needed for approval of the projects. (Each EU Member State gets a set number of votes loosely connected to its population. 232 votes -- out of 321 -- are needed for a qualified majority. Because of the abstentions, the Commission only received 213 votes in favor).

16. (C) Ryan attributed the abstentions to both a sense of solidarity among new member states and the fact that the representatives of several countries had not received any firm instructions on the issue, and thus were unsure how to act. DG Enlargement official Alessandra Viezzer went further, suggesting that Spain abstained because it sees parallels between north Cyprus and Gibraltar, and that Portugal abstained because Spain did. Latvia, Lithuania and Malta had abstained out of solidarity with another small member state. She was puzzled, however, over the Czech

Republic and Hungarian abstentions, attributing it to the relative inexperience of their representatives, who appeared not to understand that an abstention had the same effect as a "no" vote. Two local EU Member State Ambassadors, however, blamed the setback partly on the Commission, which they said had mismanaged the meeting and had not adequately taken stock of Member State positions before calling a vote.

Effect on Assistance

¶7. (SBU) The vote has put the first phase of EU programs on hold pending the next meeting of the PHARE Committee currently scheduled for October 20. At that meeting, the PHARE Committee will also be asked to approve the second phase of programs worth over 90 million Euro. Under EU rules, all the 139 million Euro must be obligated by the end of the year or lost. Since it will take a minimum of two months to put out tenders and sign contracts, Commission officials warn that failure to gain PHARE approval at that meeting would significantly cripple the EU assistance program. To ensure adequate time, DG Enlargement officials are exploring ways to possibly expedite PHARE approval, such as calling an extraordinary PHARE meeting or enabling approval to occur through a written procedure.

¶8. (SBU) According to Ryan and local DG Enlargement representative Andrea Batista, the best-case scenario following the vote is that, instead of having an initial phase of projects beginning in January and a larger second phase of projects beginning in spring, all major projects will now start together in April or May 2007. Nevertheless, some small projects will be able to begin immediately. For instance, the planned acquis-related training programs offered by DG Enlargement's TAIEX (Technical Assistance and Information Exchange) Office do not require PHARE approval as their budget is under 5 million Euro. A TAIEX official is already on the ground and TAIEX programs will start soon.

The vote will also not affect the opening of the European Commission's office in the north and the hiring of new staff.

While the Commission's "main" office will be in the EU Representation's building in the Greek Cypriot south -- where two or three DG Enlargement officials will sit -- the Commission will house as many as 20 DG Enlargement employees in a satellite office in north Nicosia. The formal opening of this office, however, may be postponed from July to September. DG Enlargement is also finding it difficult to hire professional Turkish Cypriot staff due to existing EU hiring procedures and practices.

Turkish Cypriot Response: Further Proof EU Can't Deliver

¶9. (C) The vote has intensified doubts within the Turkish Cypriot Community on whether the EU will ever be able to deliver on its "promises." It has also increased fears that any aid that does emerge will come with "unacceptable" Greek Cypriot strings attached. Turkish Cypriot "President" Talat's public response was typical. On July 5, he told the press that the vote was: "not a surprise for me. The Greek Cypriots are doing everything to prevent aid to the Turkish Cypriots. It has been proven once again that it is not possible to do something good for the Turkish Cypriots in a mechanism (such as the EU) to which the Greek Cypriots belong."

Comment and Action Request

¶10. (C) GoC officials have told us that they are unhappy with the Commission's consultations over the EU aid program, which they unfavorably compare to our consultations with them on USG assistance to the Turkish Cypriot Community. While the GoC may have some legitimate concerns over the design of some of the projects, their opposition appears to be more of a power play for control over the EU's assistance program, something DG Enlargement is loathe to give up. It also appears the GoC would shed no tears if EU assistance continued to be blocked by the PHARE Committee, as long as

the GoC was not regarded as the villain of the piece. No matter how the DG Enlargement-GoC power struggle unfolds, it is likely to have consequences over GoC expectations for influence over our own assistance. The delay in the EU's program has also further undermined the EU's reputation within the Turkish Cypriot north. This is especially the case at the moment, as the EU struggles to deliver on its parallel promise to establish some sort of direct- trade outlet for the Turkish Cypriots. Post recommends that the Department ask the Embassies in the seven abstaining countries to lobby for approval of the EU assistance at the next PHARE Committee meeting. End comment.

SCHLICHER